



March 20, 2007

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Employee Accounts Receivable – Follow-Up
(Report Number FT-AR-07-009)

This report presents the results of our self-initiated audit of Employee Accounts Receivable (Project Number 06BD021FT000). We initiated this audit to follow up on recommendations from our prior audit report.¹

Background

The Financial Processing Section, Finance Branch, of the Eagan Information Technology and Accounting Service Center (IT/ASC) is responsible for invoicing and processing payments of employee accounts receivable for active and separated employees. These debts consist primarily of payroll related items including salary overpayments, overdrawn annual and sick leave, advances, and health benefit premium related items.

Debt collection for active employees can be voluntary or involuntary and payroll deductions can be executed for either method. The amount deducted for any pay period may not exceed 15 percent of disposable pay,² except with the written consent of the employee. Collection resources for separated employees include retirement funds at the Office of Personnel Management and use of the Department of the Treasury's Cross-Servicing Program.³ Employee payroll debt as of December 31, 2005, for active and separated employees was \$43.2 million.⁴ By comparison, the outstanding receivable balance for these employees was \$42.3 million for fiscal year (FY) 2002.

Objectives, Scope, and Methodology

Our objectives were to analyze collection activity for improvement since our prior Employee Accounts Receivable audit, and to follow up to determine if corrective actions were taken on prior audit findings and recommendations. To accomplish our objectives, we interviewed Finance and Labor Relations personnel at the Eagan IT/ASC and Postal

¹ *Employee Accounts Receivable* (Report Number FT-AR-03-009, dated May 12, 2003).

² Disposable pay is the part of authorized pay remaining after deduction of any amount required by law to be withheld, excluding any garnishment under 5 CFR parts 581, 582.

³ Cross-servicing is a program applied after agencies refer their debt to the Department of the Treasury. It consists of a variety of methods to collect delinquent debts government-wide, including demand letters, telephone calls, and the use of private collection agencies.

⁴ We used calendar year amounts to correspond with reporting of wages to the Internal Revenue Service.

Service Headquarters. We reviewed applicable Postal Service policies and procedures and the Debt Collection Improvement Act for compliance. We also analyzed collection activity of employee payroll receivables outstanding as of December 31, 2005, using Audit Command Language.⁵ We sorted these receivables by collection activity and focused our attention on those with no collection activity. We compared outstanding employee accounts receivable with no collection activity to the Grievance Arbitration Tracking System (GATS) to determine if any had grievances filed against them. Collection efforts for separated employees were outside the scope of this review.

We conducted this audit from February 2006 through March 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate. We relied on computer-generated data from the Oracle Accounts Receivable system. We compared data extracted from that system to the general ledger to ensure data reliability.

Prior Audit Coverage

In the audit report titled *Employee Accounts Receivable* (Report Number FT-AR-03-009, dated May 12, 2003), we reported the Postal Service generally processed receivables in accordance with policies and procedures, but it could improve monitoring and collection procedures. In addition, management did not always implement provisions of the *Employee and Labor Relations Manual* (ELM) and the Debt Collection Improvement Act. Management agreed to explore using GATS to monitor the status of employee receivables in the grievance process, enforce the involuntary collection procedures, and explore and implement options to encourage payment. Management neither agreed nor disagreed with our recommendation to establish a policy to enter into agreements with employees on leave without pay status to repay health care benefits paid on their behalf.

Results

Overall, the Postal Service has improved its efforts to monitor and collect outstanding employee debt. However, the Postal Service was not maximizing its debt collection opportunities on \$1.3 million in outstanding active employee debt because managers did not always use involuntary collection procedures. As a result, the Postal Service increases its risk that it will not collect receivables. We will report \$1.3 million as monetary impact, questioned costs, in our *Semiannual Report to Congress*.

Our analysis of subsequent collection activity on \$43.2 million in total employee payroll debt as of December 31, 2005, disclosed the Postal Service did not have collection activity on

⁵ We omitted invoices paid in full after December 31, 2005, and prior to April 24, 2006 (the date we extracted our data), from this report because historical balances are not available.

\$1.3 million, or 3 percent, of employee debt.⁶ Additionally, the Postal Service initiated efforts to centralize all employee accounts receivable collection procedures to encourage payment and ensure all appropriate collection efforts were pursued. It also initiated efforts to use GATS to monitor employee receivables in the grievance process. Furthermore, the allowance for uncollectible accounts decreased from 70 percent of outstanding accounts receivable in FY 2002 to 25 percent in FY 2005, primarily as a result of a change in accounting.

We also noted, because of complex union issues, the Postal Service chose not to establish a contract with employees to repay health care benefits paid on their behalf when in “leave without pay” status. Nevertheless, the Postal Service has considered alternative options to encourage payment and decrease outstanding debt. Therefore, we will no longer pursue the recommendation to establish a policy relating to repayment of health care benefits for employees who are in leave without pay status.

Efforts to Enforce Involuntary Collection Procedures

Postal Service managers did not always use involuntary collection procedures to collect outstanding employee debt. Each postmaster or installation head is responsible for collecting any debt owed to the Postal Service by an employee under his or her supervision.⁷ The Postal Service did not have collection activity on \$1.3 million, or 3 percent, of employee debt outstanding at December 31, 2005, as shown below:

Calculation of Outstanding Active Employee Debt with No Collection Activity	\$ In Millions
Active and Separated Employee Payroll Debt on 12/31/2005	\$43.2
Less: Receivables Paid in Full 12/31/2005 through 4/24/2006	<u>5.5</u>
	\$37.7
Less: Receivables with Collection Activity During the Calendar Year	<u>24.2</u>
	\$13.5
Less: Separated Employees	<u>9.9</u>
	\$3.6
Less: Employee Payroll Debt in a Grievance Status	<u>2.0</u>
	\$1.6
Less: Employees with Workers’ Compensation Claims, Bankruptcy Proceedings, No Earnings	<u>0.3</u>
Net Outstanding Active Employee Payroll Debt with No Collection Activity	<u>\$1.3</u>

⁶ We excluded debt where grievances had been filed, debt related to workers’ compensation claims or bankruptcy proceedings, and debt for employees with no Postal Service income.

⁷ ELM, Section 462.12, Collection by Postmaster or Installation Head, July 2002.

Postal Service policy⁸ allows involuntary collection when employees do not pay a debt, do not enter into a payment plan within 14 days of being notified of the debt, or have not filed a grievance on the debt. The policy also requires the postmaster or installation head to initiate involuntary collection proceedings. In cases where a grievance has been filed, collection activity cannot occur until the grievance has been resolved. Regarding workers' compensation claims, Postal Service policy⁹ provides employees the option of buying back leave. If the employee decides not to exercise that option, the Postal Service removes the receivable. When a debtor has filed for bankruptcy protection, management must consult legal counsel prior to continuing any collection activities. As such, to ensure collection feasibility, we excluded employee debt related to workers' compensation claims, for employees in bankruptcy proceedings, and for employees with no Postal Service income.

Field managers were not always aware of their responsibility to collect employee receivables. The Postal Service's risk that it will not collect employee receivables increases when collection action is not initiated timely.

The Postal Service initiated efforts to centralize all employee accounts receivable collection procedures at the Eagan Accounting Service Center (ASC). Management believes this will ensure they pursue all appropriate collection efforts.¹⁰ To date, the Postal Service has not provided an expected completion date for these efforts. We plan to report \$1.3 million as monetary impact, questioned costs, in our *Semiannual Report to Congress*.

Recommendations

We recommend the Vice President, Controller:

1. Coordinate and communicate with Area Vice Presidents and installation heads to enforce involuntary collection procedures.
2. Coordinate with Area Vice Presidents to initiate involuntary collection action to collect outstanding debt identified.

Management's Comments

Management agreed with the facts and monetary impact presented. Management also agreed with recommendation 1 and will issue debt collection instructions by June 30, 2007. Since management was not provided with specific information on outstanding debts before preparing their response, management considers recommendation 2 part of recommendation 1 and will emphasize current outstanding receivables. Management's comments, in their entirety, are included in the appendix.

⁸ ELM Section 462.3, Statutory Offset Procedures, dated July 2002.

⁹ ELM Section 514.4, Exhibit 514.4, Acceptable Reasons and Instructions for Leave Without Pay, Injury in Line of Duty, July 2002.

¹⁰ Centralization efforts do not affect the postmaster or installation head's responsibility for collecting active employee debt.

Evaluation of Management's Comments

Management's comments are responsive to recommendations 1 and 2, and the actions planned should correct the issues identified in the finding. To assist management's collection efforts, we will provide them with specific information on outstanding debts as identified during our audit.

Efforts to Use Grievance Arbitration Tracking System

The Postal Service initiated efforts to revise GATS to include monitoring of employee receivables related to employee debt. Currently, GATS does not include all stages of the grievances and does not have a reporting mechanism to forward employee debt to the appropriate postmaster or installation head for collection or to the Eagan ASC for removal upon resolution of the grievance.

Generally, the grievance process includes five steps: (1) the oral grievance, (2) the written grievance, (3) the written appeal, (4) the national level review, and (5) arbitration. Currently Postal Service personnel do not enter oral grievances into GATS. As a result, they cannot use the current GATS for all receivables to ascertain whether collection can begin. In addition, GATS currently does not have a mechanism to report grievance resolutions. Without a comprehensive monitoring system, collections may be delayed or not initiated.

Successful implementation of a comprehensive collection and monitoring system, including GATS revisions, requires programming changes to the payroll and accounts receivable systems in addition to GATS. The Postal Service is currently reviewing the most effective way to implement these changes to the various systems in order to improve the efficiencies. As such, we are not making any recommendations at this time. However, we will continue to monitor this issue as part of our ongoing financial statements audit work.

Reduction of Provision for Allowance for Uncollectible Accounts

The allowance for uncollectible accounts in FY 2002 was over 70 percent of outstanding accounts receivable. In FY 2005, the allowance for uncollectible accounts decreased to approximately 25 percent. The majority of this change resulted from a change in the accounting estimate that occurred in FY 2005. Specifically, the Postal Service changed its basis for allowance for domestic receivables from all receivables greater than 1 year old to a historically collectible percentage based on type of receivable. Due to the high number of grievances that are filed on employee debt and the length of time it takes to resolve a grievance, a longer collection period than 1 year is normal for the Postal Service. Thus, the accounting change was appropriate.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Siewert, Director, Financial Reporting, or me at (703) 248-2100.



John E. Cihota
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Attachment

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APPENDIX. MANAGEMENT'S COMMENTS

LYNN MALCOLM
VICE PRESIDENT, OPERATIONS



February 26, 2007

JOHN E. CIHOTA

SUBJECT: Draft Audit Report – Employee Accounts Receivable – Follow Up
(Report Number FT-AR-07- DRAFT)

This provides Postal management's response to the subject audit report. We appreciate the opportunity to review and provide comments. We are in agreement with the fact and monetary impact presented in the report.

The following addresses the specific recommendations:

Recommendation #1

Coordinate and communicate with Area Vice Presidents and installation heads to enforce involuntary deduction procedures.

Response

Management agrees with this recommendation and will issue debt collection instructions to the field by the end of PQ III FY 2007.

Recommendation #2

Coordinate with Area Vice Presidents to initiate involuntary collection action to collect outstanding debt identified.

Response

Since the specific cases were not provided, we view this recommendation as part of recommendation #1. We will place emphasis on the current outstanding receivables. The field cannot automatically initiate involuntary collection until they have verified that the employees have received the proper notifications.

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